

June 6, 2018

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The Honorable Chair and Members of the Hawai'i Public Utilities Commission Kekuanao'a Building, First Floor 465 South King Street Honolulu. Hawai'i 96813

PUBLIC UTILITIES COMMISSION

Gen Ger C.3C's

Dear Commissioners:

Subject: Hawaiian Electric Companies' Treatment of the Decoupling Revenue Included in the RBA Balances Impacted by 2017 Tax Cuts & Jobs Act

This letter is to inform the Commission that the Hawaiian Electric Companies' Schedule B ("Summary of Accumulated Revenue Balancing Account") in its decoupling filings has been revised as a result of the 2017 Tax Cuts & Jobs Act effective for years ending after December 31, 2017. The new provisions of IRC §451(b) supersede the prior tax method of deferring revenue recognition of revenue balancing account ("RBA") revenues for which the Companies obtained approval from the Internal Revenue Service ("IRS") in April 2014. The new provisions result in the elimination of accumulated deferred income taxes ("ADIT") associated with these revenues.

2014 Interest on Net-of-Income Tax Basis

On May 6, 2014, the Companies informed the Commission that in accordance with Decision and Order No. 31908, the Hawaiian Electric Companies received approval from the IRS to change their accounting method from the book method of RBA revenue recognition to a recognition method based on when rates are adjusted for the RBA, effective January 1, 2014.

Accordingly, in May 2014, the Companies initiated downward adjustments to the RBA balance for the related ADIT and computed interest on this net-of-income tax RBA balance for the period January 1 - April 30, 2014. Starting with May 2014, the Companies updated Schedule B to calculate interest based on a net-of-income tax RBA balance.

2017 Tax Cuts & Jobs Act – Change in Treatment

On December 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into law to be effective for tax years ending after December 31, 2017. In accordance with the new IRC §451(b), "...the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the taxpayer..."

This change supersedes the RBA tax accounting treatment (deferred until received in rates) that the IRS approved for the Companies on April 21, 2014 and that the Commission adopted in Decision and Order No. 31908 in Docket No. 2013-0141 (Decoupling Reexamination Proceeding).

¹ The "Hawaiian Electric Companies" or "Companies" are Hawaiian Electric Company, Inc. ("Hawaiian Electric"), Hawai'i Electric Light Company, Inc. ("Hawai'i Electric Light"), and Maui Electric Company, Limited ("Maui Electric").

The Honorable Chair and Members of the Hawai'i Public Utilities Commission June 6, 2018 Page 2

IRC §451(b) eliminates the book tax temporary difference for which ADIT was provided but allows a transition to the new law, by amortizing the deferred RBA income (on which the RBA ADIT balance at December 31, 2017 is based) into taxable income over the next four years. Consequently, the ADIT adjustment to the basis for calculating RBA interest will decrease over this four year period down to zero by the end of 2021. The change captures the impact on cash flow related to the RBA net of taxes and results in a higher RBA interest charge calculated on the full RBA balance.

Schedule B Changes

In April 2018, the Companies adjusted the March 31, 2018 RBA balance for the change in accounting methodology as a result of IRC §451(b) retroactive to January 2018, when the ADIT adjustment began. They recalculated the January to March 2018 RBA balance, subject to interest, and made an upward adjustment to "true-up" the RBA balance in April 2018.²

Starting with April 2018, Schedule B was updated to calculate interest based on the full RBA balance net of the RBA ADIT balance per the provisions of IRC §451(b). See Attachments 1 – 3 to this letter.

- Column g RBA Balance Before ADIT represents the beginning RBA balance (column b) plus the Variance to RBA (column e) plus the Adjustment for prior year RBA accrual (column f).
- Column h ADIT Related to RBA Revenues reflects the declining balance of the RBA ADIT balance as of December 31, 2017. The RBA ADIT balance will be amortized over the next 4 years on a monthly straight-line basis with the effect of reducing the tax adjustment balance down to zero by the end of 2021.
- Column i Net Ending Balance represents the RBA Balance Net of ADIT (column g + column h).
- Column j Average Balance Subject to Interest the balance subject to interest is based on the average of the prior month Net Ending Balance (including Interest) plus current month Net Ending Balance.
- Column 1 The calculation of the Ending RBA balance excludes the declining RBA ADIT balance (column h). The declining RBA ADIT balance is only used to calculate interest under the provisions of IRC §451(b).

Very truly yours,

Dean K. Matsuura

Manager, Regulatory Rate Proceedings

Enclosures

² As shown in Attachments 1-3 (Note 3), the RBA Balance was trued-up in April 2018 by \$4,510 for Hawaiian Electric, \$562 for Maui Electric, and \$1,394 for Hawaiii Electric Light.

AS CORRECTED IN APRIL 2018

HAWAIIAN ELECTRIC COMPANY, INC. DECOUPLING CALCULATION WORKBOOK SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

Line No	Morth			Beginning Balance		Target Rovenues		Recorded Adjusted Revenue	Variance to RBA		Adjustment for prior year RBA accural		RBA Balance Before ADIT		_,	ADIT Retered to RBA Revenues		Net Ending Batanca		Average Balance Subject to Interest		terest at 75%/year		Ending Balance
		(A)		(p)		(c)		(d)		(*)		(1)		(g)		(h)		(0)		ψ)		(1)		(1)
	Month	y RBA Balanc		d Activity (Mo 18 013,624	rithly	PUC Rpt , Pg	. 0	A)							•									
1	2017	December		46,306,327	s	49,915,326	\$	43,730,598	5	0.184,728	5	(3,302,057)								29.169.047	\$	42,538	, s	49,231,538
2		December	- Re	vised - Note (-		-		5	49.231.536		(12,678,046)	5	35.553.490						
3																							1	
4	2018	January	\$	49,231,536	5	48,948,443	s	43 871,232	\$	5,077,211	5	(3,369,650)	5		5	(12.413,920)	S	30.525.177	\$	37.539,333	\$	54,745	*	50,993,642
5		February		50,993,842		45,953 154	5	40.430.219	5		5	(4.185.853)	. \$			(12.148,794)	\$	40.181.130	S	39,380,526	s	57.430	S	52,388,354
6		March	5	52,388,354	\$	51,603 222	8	46.365,780	5	5.237,442	\$	(3,345,112)	\$	54,280 884		(11.885,608)	\$	42,395,016	5	41,316,788	s	60.254	5	54,340,938
7		April	s	54,340,938	\$	49,061,587	\$	45,638,684		3 422 723	S	(3,430,466)	, 5	54,333,195	\$	(11.521,542)	\$	42,711,653	5	42,583,481	\$	62,101	\$	54,395,295
B		May			s		s		\$	-	8		3		\$		s		\$	-	\$	-	5	-
9		June	- \$	-	\$	_	\$	-	5	•	s	•	\$		\$	-	5	-	5	-	S		\$	
10		July	8		\$		\$		\$	-	S	-	5	-	5		3		\$		\$	-	5	-
11		August	\$	•	8	•	\$	•	S		\$	-	s	-	S	· -	8		s		\$	-	s	-
12		September	\$	-	5	-	\$	-	\$	-		•	\$		5	-	\$	-	5	-	\$		5	
13		October	5		\$		\$		5	-	\$	-	S		s		\$	•	\$	-	\$	-	\$	-
14		November	\$	-	\$	-	s	•	8		\$	•	\$		\$	-	8	-	3	•	8	-	5	
15		Decomber	- 5		5_		5		\$		5		\$		S		5	•		-	\$		8	-
16					3 1	95,586,498	3	176 308 095	3	19.260.311	3	(14,331,081)									3	234,530		
17																								
18																								
19																								
20	2019	January	\$	-	\$	-	s	-	8	-	s		\$		\$	-	\$	-	5	-	8	-	\$	
21		February	s		5	•	\$	•	\$	-	\$	-	5	-	5	•	s		Ş	-	\$		5	-
22		March	- 5	-	5	-	s	•	S		s	-	s	-	5		\$	•	8	•	\$		\$	
23		April (Peg)	s	•	s	-	\$	-	\$	-	5	-	8		\$	-	\$	-	\$	-	5	-	8	•
24		May	•	•	\$	•	s		\$	-	\$	-	5	-	5	•	\$		\$	-	\$	•	5	-
25		June	\$	-	\$	-	\$		3		s	-	\$	-		-	5		5	•	s	•	s	•
26		July	5		s	•	s	•	\$	-	s	-	S	•	5	•	5		\$	-	\$	-	5	-
27		August	5	-	\$	•	8		\$	•	5	-	\$	-	S	•	S	•	\$	•	\$	-	s	-
28		September	S	-	\$	-	\$	-	8	•	\$	•	\$	-	5	-	8	-	\$	•	8	•	5	
29		October	5		\$		S	•	\$	•	5	-	\$	•	s		\$	•	\$	-	\$		\$	-
30		November	- 5		\$		s		\$	-	\$	-	\$		S		S		\$	-	\$	-	8	-
31		December	5	-	\$	•	\$	•	s		\$	-	\$	-	\$	•	s	•	s	•	\$	-	\$	-
	Source	e of Data				Sch B1		Sch B2	•	Cots (c)-(d)		Note (1)	c	cols (b) • (#) • (l)		Note (2)		lote (2) & (3) Cols (g)+(h)		Curr Cal (i)+ ior Cal (i)+(k)			•	Cots (g)+(h)

Amounts represent recovery of prior years' RBA balance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019

India (2).

On Decimber 22, 2017, the 2017 Tax Cuts & Jobs Act was signed into low to be effective for tax years ending after December 31, 2017. In accordance with IRC §451(b), *.. the all events test with respect to any item of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account as revenue in... an applicable financial statement of the tax payer...... This change would supersede the RBA tax accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decizion & Order No. 31908 on Schedula A of the Decoupting Investigation, Issued in Docket No. 2013-0141 on February 7, 2014.

....

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the tax edjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA impore (on which the RBA ADIT betwee of December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-kino basis) with the effect of reducing the tax edjustment balance down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	49,231,538
Composite Federal & State Income Tau Rate	25 75%
RBA ADIT Belance et 12/31/2017	12 678.046
Years	4
Annual amortization for years 2018 through 2021	3 169,511
Monthly ADIT amortization	284,126

Note (3), In April 2018, the Comprinies adjusted the March 31, 2018 RBA balance for the change in accounting methodology identified in Note (2). The January to March 2018 RBA balance subject to Inferest was receivaleted and the RBA Balance was trued-up in April 2018 for \$4.510.

HAWAII ENGIVE LIGHT COMPANY. INC. DECOUPLING CALCULATION WORKBOOK SUMMARY OF ACCUMULATED REVENUE BALANCING ACCOUNT

AS CORRECTED IN APRIL 2018

Line No.		Month (e)		Beginning Balance (b)		Target Revenues (c)		Recorded Adjusted Revenue (d)		Variance to RBA		Adjustment for prior year RBA accruel		RBA Batenoe Before ADIT		ADIT Related to RBA Revenues		Net Ending Balance		Average Batance Subject to Interest		Interest at 3.25%/year (t)		Ending Satence
				tivity (Monthly									1				:						;	
2	2017	December December	- Revise	3,128,648 d - Nate (2)	\$	13,230,418	\$	12,492,192	\$	738,226	5	(253,086)		3 619,386		(932,055)		2,687,311	. 5	2,059,477	5	5,578	<u> </u>	1,619,366
,	2018	Jamuary	s	3,619,366		13,301,362	s	12,835,840	5	465.522	s	(258,886)	s	3,826,002	5	(912,637)		2.913.365	5	2,800,338	5	7,584	5	3,833,586
5	20.0	February	Š	3,813,586	Ś	12,451,601	Ś	11,550,335	s	891,266	Š	(235,377)	Ś	4,469,475	Ś	(893.719)		3,596,256		3,358,603	ś	8,625	ś	4,498,300
6		March	Š	4,498,300	Š	13.258,795	s	12,733,942	Š	524,853	Š	(257,906)	s	4,765,247	Š	(873,801)	•	3,891,446	Š	3,748,264	Š	10,152	s	4,775,399
7		April	Š	4,775,399	Š	12,725,921	Š	12,731,188	5	(5,267)	Š	(258,997)	Š	4,511,135	Š	(854,383)	s	3,656,752	Š	3,779,175	5	10,235	s	4,521,370
8		May	5		\$		5		Š		Š		5		ş		Ś		5		5		5	
9		June	\$	-	5		5		5		5		5		s		\$		5	-	5	-	5	-
10		July	5	-	\$	-	5		\$	-	5	-	5	-	5	-	5	-	5		5	-	5	-
11		August	s	•	8	-	5	-	3	-	5		\$		5	•	5		5		5		\$	•
12		September	\$	-	\$		5	-	5	-	5	-	5	•	5		\$	•	5		5		5	
13		October	5		3		\$	•	\$		5		\$		5	-	\$	-	5	-	5	-	S	-
14		November	\$		3		5	•	5	•	5	-	5		\$	-	5	-	\$	-	\$	-	5	-
15		December	5		5	<u>. </u>	_5	<u>·</u>	_5_		5	<u>·</u>	5	•	5	•	5	•	5		s	<u>·</u>	\$	-
15		Total			5	51,737,679	<u>5</u>	49,661,305	5	1.876,374	5	(1,011,166)									\$	36,796		
17																								
18																								
19	2019	January	\$	-	\$	-	S	-	5	-	S	-	3	-	5	-	5	-	\$	-	\$			-
20		February	S	-	S	-	S	-	5	•	5	-	S	•	\$	-	\$	-	5	-	S	-	S	•
21		Merch	5	-	5	-	5	-	3	-	5	-	5	•	5	-	5	•	5	•	5	-	5	-
22		April	\$	-	5	-	S	•	3	-	5	•	3	•	5	•	5	•	5	•	\$	-	5	•
23 24		May	5	-	•	-	•	-	5	-	3	-	•	-	•	-	5	-	5	-	•	•	•	-
25		June	\$ \$	•	>	•	,	-	5	•	5	•	,	•	5	•	>	•	5	•	5	•	,	•
25 26		July	,	•	,	•	٠		•	•	•	•	,	-	,	-	,	•	,	-	•	•	,	•
27		August September		•	,	:	5	•	,	:	•	•	;	•	\$	•	5	-	,	-	5	-	,	•
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Note (11

Amounts represent recovery of prior years' RBA belance through the RBA rate adjustment effective June 1, 2017 for the period June 2017 through May 2018 and June 1, 2018 for the period June 2018 through May 2019.

Note (2)
On December 22, 2017, the 2017 Tax Curs & Jobs Act was signed into tax to be effective for lax years ending after December 31, 2017. In accordance with IRC §451(b). This all events lest with respect to any lifem of gross income (or portion thereof) shall not be treated as met any later than when such item (or portion thereof) is taken into account an revenue in... an applicable shander statement of the tax payer. This change would superaced the RBA (as accounting treatment (deferred until received in rates) the IRS approved for the Companies on April 21, 2014 and adopted in Decision A Order No. 31938 on Schedule A of the Decoupting Investigation, Issued in Docket No. 2013-0141 on February 7, 2014.

IRC §451(b) would eliminate the book tax temporary difference for which ADIT was provided and accordingly, would reduce to zero the fax adjustment to the basis for calculating RBA interest. This change imposed by IRC §451(b) should allow for the deferred RBA income (on which the RBA ADIT batteries at December 31, 2017 is based) to be amortized into taxable income over the next 4 years (straight-line basis) with the effect of reducing the tax adjustment batteries down to zero by the end of 2021.

RBA Regulatory Asset Balance at 12/31/2017	3,819,356
Composite Federal & State Income Tay Rate	25 75%
RBA ADIT Balance at 12/31/2017	932,055
Үевгэ	4
Annual amortization for years 2018 through 2021	233,014
Monthly ADIT amortization	19,418

In April 2018, the Companies adjusted the March 31, 2018 RBA before for the change in accounting methodology identified in Note (2). The January to March 2018 RBA before subject to interest was recalculated and the RBA Belance was structure in April 2018 for \$1,394.

SURMARY OF ACCUMALATER REVENUE BALANCING ACCOUNT

No	Month		eginning Balance		Talija: Reserva		Recorded Adjusted Reverse	v	erience to RBA		Adjustment for or year RSA recovery		Betance ore ADIT	ADIT Reliated 1 to REA Reserves		Her Ending	:	Average Batance Subject to Interest		intervieri Silliyeen		Eneirig Betence
	(0)		(0)	-	(C)	_	(d)		(e)		(f)		(g)	(v)	_	(1)		ω		(1)	. —	(i)
	Montrey RBA Balance	ans A	swity (Mont	Ny Pi	JC RDL, Pg BA	,							;					·				
1	2017 December		4 661,114	5	10,929,834	,	10 000 .025	5	690,976	\$	(711,037)		1		٠.	4,116,549		3 177,327	\$	9,310		5,544.2
2	December - F	tevisec	- Note (2)									•	5,544 314	(1,427,765)	•	4,110 343						
•	2016 January	5	5,544,914	s	11.206,157	s	10,623,609		582,328	,	(229.318)		5.000 325	(1,398,070)			3	4,312,477	5	4,492	1	5.910
	February	s	5,910,817		8 935 477		8 491 075		444,402	8	(198 271)	. 5	6 158,948 1				1	4 651,735	•	4,846		6 153.
	March	5	6,163,794		11.192,019	1	10,411,284	3	781,335	\$	12:2	1	0 733,103 1	. ,,,,,,,		5,394.573	•	5 095 045	•	5,307	3	6.738
	April	5	6,738,410		10 651,813	3	10 648 857	3	5 058	\$	(220 634)	4	6 522,832			5,214 047	:	5.308,984	\$	5,528	:	6 526
	May							•	•			:		•	:		:		ί.		·	
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2	July American							:	-			:	. ;		š		š		5		1	
	August Sectorizer							:	:			:			ĭ	-	i	-	š		i	
,	October							÷	·			i	. 1				1	-	5		8	
5	Howeviber							i				•			3		\$	-	5			
6	December							i				\$			8	-			3	<u> </u>	5	
•				5	42,986,146	7	41,173,024	5	1,813,122	3	(849,249)						5	19,166,171	\$	70,173		
•										_									s	_		
•	2019 Jenuary	•	•	•		\$	•		•	•	•	:	- 1	•	:		:		÷		ï	
9	February	•	•	•	•	\$	•	•	•	•	•	:					i		i	-	i	
1	March	•	•	:	•	•		•	•	:	-	:			i		i	-	š		1	
2 3	April Mar	:			•	:		:	_	- ;		ī			,		ı	-	5		\$	
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5	July	i		5		š		i		ŝ	-	1	- 1	1 .	\$		3		\$	-	1	
5	August			\$		1				3			- :		\$		8		5	•	3	
7	Suptember	5		\$		1		8		5			- 1	1				•	5	-		
5	October	3	-	\$	-	ı	-	1	-	3	-	5	- 1		•	•	•	-	•	•	•	
9	November	3	•	\$	-		-	6	•	3		:		•	:	•	:	-	3	•	:	
0	December	•	•	\$	•	•	•	1	•	1	-	•	- '	•	•	,	•	-	•	•	•	
	Environment Ports				Sch Bi		Sch 82		(c) - (d)		Note (1)	Cat	. (thire(mire(I)	Mate (2)		Nove (2) 6 (3)		Curr Col (i)+			,	Cots (g)-(*)
	Sources of Data				35(6)		601 02	٠	See fe3 - fe1		140.5 (1)	-	(44)-(45)-(1)			Cots (p)+(h)		ior Cal (1)-(L)/2				
	Hote (1): Amounts repre	west re	covery of Of	or yes		o Pri				; ,	une 1, 2017 for the perio			2018 and Aine 1, 2	0 18 i	•			2011	•		
	Ampurca repre	22, 20 100 (N	17, 8w 2017 Heaf) shell n Heafywrt (de	Yas C	iuls & John Act	wes	egned into line to	e be e	offective for the	. jas	une 1, 2017 for the perions 	r 31, 20	17 in eccerdence		i in	e all events lest of the texperer	17 17	respect to any its us change would	m of	groue rrands the	.	
	.RC 9451(b) w	ould of	minete the b	hcor	ne (en which th	e KE	nge for erhigh AD A ADIT beforce at	FI us LOrra	s previded an ember 31, 201	a cco 7 is b	rdingly, would reduce 10 ayad) to be emorthed in	zero (he 10 ta eb	tas a@ustreens to le incomé over the	o the besis for calcul a next 4 years (strang	ating	; RBA interest. The basis) with the	effe	unge Imposed to ct of reducing th	BIC A TAX	\$ 451(0)		

HDV KRONEIDA VERSI CENTAGO B. 17(7) (VA)	2,722,212
Composto Federal & State poprie 1s. Pets	25 751
RBA ADIT Batence at 12/31/2017	1,427,705
Years	
Annual emort ration for 194/se 2018 through 207 Microsty ADIT emortscales	358.841 29,745

Aions (3) In April 2018, the Companies educated the M₂₀₀₃ 31, 2018 RRA between for the change in accounting methodology for raffed in Note (7). The January to Merch 2018 RRA between subject to interest with receivable and the RRA between was receivabled and the RRA between was short